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FISCAL IMPACT STATEMENT

LS 7046
BILL NUMBER: SB 284

NOTE PREPARED: Jan 9, 2007
BILL AMENDED:

SUBJECT: Property Tax deduction for seniors.

FIRST AUTHOR: Sen. Kruse
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill removes income and assessed value restrictions on the property tax deduction for individuals who are at least 65 years of age. It provides that the amount of the deduction is the greater of: (1) the difference between the assessed value of the property in a particular year and the assessed value of the property in a base year; or (2) the amount of the deduction as it is calculated under current law. It also makes conforming amendments.

Effective Date: January 1, 2008.

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this proposal and subject to appropriation, annual state PTRC and homestead payments will be reduced. The net total state savings is estimated at $1.2 M in FY 2009 (partial year) and approximately $3 M in FY 2010. PTRC and homestead credits are paid from the Property Tax Replacement Fund

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The revenue reduction is estimated at about $40,000

Explanation of Local Expenditures: Forty-four counties currently provide additional homestead credits that are paid with proceeds from the local option income taxes (LOIT). These credits will decline by approximately $689,000 in CY 2009. LOIT proceeds that are not used for county homestead credits are distributed to civil taxing units as certified shares.

Explanation of Local Revenues: Under current law, persons 65 or over (senior citizens) or their surviving spouses may receive an assessed value(AV) deduction on their real property or mobile home residence equal to one-half the assessed value of the property up to $12,480. In order to qualify, the assessed value of the property may not exceed $144,000 and the adjusted gross income of person may not exceed $25,000.

This bill will eliminate the both the $25,000 adjusted gross income and the $144,000 assessed value limits. The amount of the deduction will now be based on the greater of: (1) the difference between the assessed value of the property in the tax year in question and the assessed value for base year, or (2) the minimum of $12,480 or one-half the assessed value of the property. The base year will be 2007 if the taxpayer was living in the home by March 1 of that year; if the taxpayer bought the home after March 1 2007, then the base year will be the first year in which the taxpayer lived in the home on March 1. By removing the income and assessed value limits, this bill will enable seniors with an adjusted gross income greater than $25,000 or whose homes were valued at more than $144,000 to become eligible for the deduction. This bill will not affect the eligibility of those senior citizens or surviving spouses who are currently eligible for the aged deduction.

This proposal would shield seniors and their surviving spouses from paying increased taxes due to trending. This analysis assumes that for the first two or three years under this proposal the assessed values of the majority of senior households will not increase by more than $12,480 above the 2007 AV. It also assumes that the assessed value of most senior homes is greater than $24,960. Under these assumptions, each eligible senior or surviving spouse will be able to deduct a maximum of $12,480 for the first two or three years this bill would be in effect.

The bill would be effective as follows: the portion of the bill that changes the deduction from $12,480 to the greater of $12,480 or change in assessment would become effective for taxes payable in CY 2008 for taxpayers who are currently receiving the aged deduction. The portion of the bill that would eliminate the AV and income ceilings would first affect taxes payable in CY 2009 because of timing issues involving deduction applications.
Applications for aged deductions must be filed by June 10 of the assessment year.

Estimates derived from income tax data indicate that this proposal will enable an additional 134,000 senior citizens and surviving spouses to claim this deduction in 2009. They will pay approximately $23 M less in taxes in CY 2009 for an average net tax reduction of $171 per taxpayer. At a maximum of $12,480 per qualifying senior citizen household, this deduction will potentially reduce the tax base by $1.7 B AV.

This reduction in the tax base will cause a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. A $1.7 B AV reduction in assessed value would cause a $0.01 increase in the statewide average gross tax rate in CY 2009. This translates to a property tax shift to all other classes of property of approximately $26.5 M. This number exceeds the $23 M in tax savings to senior taxpayer because the tax base for all other classes of property includes some property that does not qualify for homestead credits or the regular 20% PTRC. Senior citizen households, on the other hand, comprise only homesteads which qualify for these credits.

This analysis assumes that all taxpayers who would qualify for the deduction under this bill will actually claim it. It also assumes that the projected increase in the average home's AV for the next two or three years will be less than $12,480. If these conditions change then the fiscal impact might be different from the results presented here. For example, if the AV of the majority of senior's homes increases more than $12,480 then the impact on State and Local revenues and expenditures will be correspondingly larger. On the other hand, if some senior citizens do not apply for the deduction, then this would have a smaller impact on State and Local revenues and expenditures.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance; State Fair Board; DNR Division of Forestry.

Local Agencies Affected: County Auditors.

Information Sources: Bureau of the Census; Local Government Database.

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